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TAGS: [ECON](#) [ENRG](#) [PBTS](#) [PGOV](#) [PREL](#) [CA](#) [VN](#) [UK](#)
SUBJECT: (C) BP PREFERS TO MANAGE CHINESE PRESSURE OVER
SOUTH CHINA SEA IN COMMERCIAL CHANNELS

REF: STATE 17315

Classified By: A/ECON MIN COUNSELOR SANDRA CLARK FOR REASON 1.4 B and D

¶1. (C) SUMMARY The Chinese government has threatened action against BP assets on the mainland if the company does not halt new projects in disputed South China Sea waters. BP would like to keep any reactions to Chinese pressure over the company's activities in the South China Sea within commercial channels for the time being, according to the UK Foreign Office (FCO). Premier Oil, another UK energy company operating in disputed S. China Sea waters, has no business activity in China, so does not feel pressure to accommodate Chinese demands to halt operations. END SUMMARY

¶2. (C) BP acquired several off-shore projects from ARCO which were already functioning in disputed South China Sea waters when BP took them over, FCO's Head of the Far Eastern Group Stephen Lillie told us on April 21. The Chinese government chose to turn a blind eye to those projects, however, and they function without interference or pressure. Subsequently, BP began to develop new projects in areas where both China and Vietnam hold claims. In the summer of 2007, China began to put pressure on British and other companies to either cease operations or work out a deal between the individual companies involved, Vietnam and China. To the FCO's knowledge, China has not raised concerns over the pre-existing projects, but has made it clear that if BP were to go forward with the new projects, it would harm other BP projects in China. FCO takes this threat seriously, and Lillie noted that BP is one of the largest foreign investors in China. Concurrently, the Vietnamese government, which gave BP permission to operate in areas it claims in the South China Sea, told BP that onshore projects in Vietnam would be in jeopardy if BP succumbed to Chinese pressure.

¶3. (C) Neither the Chinese nor the British have raised the issue with each other diplomatically, despite opportunities during PM Brown's visit to Beijing in January and FM Miliband's visit in February. But the Chinese government in Beijing and in London has raised the issue directly with BP and Premier Oil, Lillie continued.

¶4. (C) BP has not asked the UK to intervene yet, but is looking for a face-saving, commercial way to resolve the dispute, perhaps by finding reciprocal projects, or areas for new projects, in other South China Sea regions. Lillie said that since the problems arose last summer, there has been little movement either way, and thought Petro Vietnam, CNOC and BP would be able to work it out. He told us a draft deal is working its way through the Chinese bureaucracy, but is being held up by a "hard-line" Foreign Ministry. Lillie said BP believes the Chinese government, in the end, may feel more comfortable with BP in those projects rather than an Indian

company (rumored to be in talks with Vietnam to fill a possible void) which China would be less able to influence. If the issue cannot be resolved commercially, BP might ask for help. Premier is unlikely to need assistance, Lillie said, because they are not "leveraged" by other Chinese projects. Premier's other investments are in India and Vietnam.

15. (SBU) The FCO was inexplicably slow to agree to meet with Econoff. The only hint as to why came from another FCO official who said they had wanted to get BP clearance to discuss the issue with the USG. BP gave permission willingly.

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